

Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC 1402

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 13533

E.O. 11652: GDS

TAGS: ECON, PINT, VE

SUBJECT: MANY VENEZUELAN PESSIMISTIC ABOUT VENEZUELA'S
FUTURE PROSPECTS

BEGIN SUMMARY. DESPITE VENEZUELA'S CURRENT HUGE OIL INCOME, MANY OF THE COUNTRY'S POLITICAL AND BUSINESS LEADERS ARE EXPRESSING A LACK OF CONFIDENCE IN VENEZUELA'S FUTURE, ESPECIALLY ITS ABILITY TO MANAGE ITS OIL WEALTH SO AS TO EFFECT FUNDAMENTAL REFORMS. BUSINESSMEN FEAR THE TREND TOWARD STATISM, WHILE ORDINARY CITIZENS ARE ANGRY ABOUT INFLATION, BUREAUCRATIC MISMANAGEMENT AND MOUNTING FRUSTRATIONS IN DAILY LIVING. SO FAR, THIS MALAISE IS FAR FROM UNIVERSAL AND HAS NOT HAD ANY DISCERNIBLE IMPACT ON THE ECONOMY. NEVERTHELESS, AS VENEZUELA APPROACHES A MILESTONE IN ITS ECONOMIC DEVELOPMENT, AMNY OF THE COUNTRY'S LEADERS ARE FACING THE FUTURE NOT WITH OPTIMISM OR ENTHUSIASM BUT TREPIDATION AND INADEQUACY.
END SUMMARY.

1. SINCE PRESIDENT CALROS ANDRES PEREZ CAME TO POWER VENEZUELA HAS BENEFITED FROM STABLE, DYNAMIC GOVERNMENT AND UNPRECEDENTED PROSPERITY FROM ITS HUGE PETROLEUM REVENUES. PEREZ HAS IMPLEMENTED A NUMBER OF ECONOMIC MEASURES DESIGNED TO BENEFIT VENEZUELA'S
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HAVE-NOTS AND HAS NATIONALISED THE IRON ORE AND PETROLEUM INDUSTRIES-

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ALL POPULAR MEASURES ENJOYING WIDE PUBLIC SUPPORT. INTERNATIONALLY, VENEZUELA HAS BEEN TRANSFORMED FROM A BACKWATER LDC TO A CAPITAL-EXPORTING COUNTRY (\$1.697 BILLION TO NEIGHBORS AND INTERNATIONAL ORGANIZATIONS SINCE 1974). BY MOST OF THE STANDARDS OF THE NON-INDUSTRIALIZED WORLD, VENEZUELA IS A FORTUNATE COUNTRY WHICH SHOULD BE ABLE TO FACE THE FUTURE WITH CONFIDENCE AND OPTIMISM.

2. YET MANY VENEZUELAN POLITICAL AND BUSINESS LEADERS PUBLICLY AS WELL AS PRIVATELY ARE EXPRESSING GRAVE CONCERN FOR WHAT LIES AHEAD AND SEEM TO BE EXPERIENCING A KIND OF CRISIS OF CONFIDENCE IN VENEZUELA'S FUTURE. FOREMOST IS THE FEAR THAT VENEZUELA'S CURRENT PROSPERITY IS FRAGILE AND TRANSITORY, THAT VENEZUELA IS RUNNING THROUGH AND RUNNING OUT OF THE IMMEDIATELY AVAILABLE RESERVES OF ITS NON-RENEWABLE PRINCIPAL NATIONAL ASSET (CURRENTLY ESTIMATED AT BETWEEN 12 AND 19 YEARS), THAT ITS PRESENT HIGH PRICE MAY NOT BE ABLE TO BE MAINTAINED INDEFINITELY, AND THAT VENEZUELA'S OIL WEALTH CONSEQUENTLY WILL NOT LAST LONG ENOUGH TO ENABLE THE GOVERNMENT TO EFFECT THE FUNDAMENTAL REFORMS NEEDED TO MODERNIZE THE COUNTRY. ANOTHER PRIME SOURCE OF ANXIETY IS APPREHENSION THAT VENEZUELA DOES NOT POSSESS THE CAPACITY TO MANAGE ITS OIL BONANZA. IN PARTICULAR, THE NATIONALIZED PETROLEUM INDUSTRY, IT IS WIDELY FEARED, WILL BECOME POLITICIZED, MISMANAGED AND INEFFICIENT, CAUSING AN EXODUS OF VENEZUELAN TECHNICIANS FROM THE INDUSTRY AND RESULTING IN GOVERNMENT REVENUES (85 PERCENT PETROLEUM-DERIVED) TO DROP SHARPLY. THERE IS ALSO GREAT CONCERN THAT, FOR A VARIETY OF CIRCUMSTANCES, VENEZUELA WILL NOT BE ABLE TO MARKET ITS PETROLEUM AT EVER-RISING PRICES. VENEZUELAN ARE BEGINNING TO REALIZE THAT IN NATIONALIZING THE OIL COMPANIES THEY ARE ASSUMING ALL THE PROBLEMS AND RISKS OF THE INTERNATIONAL OIL BUSINESS, BUT WITHOUT GAINING ADDITIONAL INCOME. IN FACT, THERE WAS CONCERN AT THE ANNOUNCEMENT THAT VENEZUELA'S 1976 BUDGET OF BS 33 BILLION WILL BE 20 PERCENT LESS THAN THAT OF 1975, AND THAT NEXT YEAR THERE WILL BE NO ALLOCATIONS TO THE VENEZUELAN INVESTMENT FUND (CURRENTLY WORTH ABOUT \$5 BILLION), DUE TO THE ANTICIPATED DROP IN OIL INCOME RESULTING FROM DECREASED PRODUCTION IN 1976. THE DECLINE IN OIL REVENUES (AS YET UNQUANTIFIABLE BUT EXPECTED TO BE SIGNIFICANT) HAS BOTH ADECOS AND THE OPPOSITION GREATLY WORRIED ABOUT WHETHER THE GOV WILL BE ABLE TO MEET ITS MANY COMMITMENTS, ESPECIALLY WHETHER THE GOV WILL BE ABLE TO CONTINUE TO FUND ITS LARGE-SCALE DOMESTIC DEVELOPMENT
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PROJECTS. (IF IT CANNOT, PEREZ AND THE AD PARTY FEAR SERIOUS POLITICAL TROUBLE.) ON THE OTHER HAND, VENEZUELAN LABOR LEADERS ARE GENERALLY OPTIMISTIC ABOUT THE COUNTRY'S FUTURE AND BELIEVE VENEZUELA WILL BE ABLE EFFICIENTLY TO MANAGE ITS PETROLEUM AND IRON ORE RESOURCES.

3. FEARING ITS OIL WEALTH WILL ISOLATE IT FROM ITS NEIGHBORS AND ENGENDER THEIR HOSTILITY, THE GOV STRIVES ASSIDUOUSLY TO DISGUISE ITS

BEGGAR-THY-NEIGHBOR PETROLEUM POLICY BY IDENTIFYING WITH AND VIGOROUSLY ESPOUSING THE CAUSE OF THE LDC'S AND THE THIRD WORLD. THE GOV HAS SKILLFULLY MANEUVERED TO NEUTRALIZE EXTERNAL RESENTMENT OF ITS OIL RICHES, BUT GOV LEADERS ARE PREOCCUPIED WITH VENEZUELA'S VULNERABILITY ON THE OIL PRICE ISSUE.

4. WITH THE DISAPPEARANCE OF THE US OIL AND STEEL COMPANIES AS POLITICAL TARGETS, THE GOV ITSELF HAS BEGUN TO RECEIVE THE FULL BRUNT OF DOMESTIC CRITICISM. GOVERNMENT AND AD PARTY LEADERS ARE DEEPLY CONCERNED OVER CORROSIVE ADMINISTRATIVE CORRUPTION AND ARE CONTINUALLY WARNING OF ITS DANGERS. POLITICAL OPPONENTS OF THE PEREZ ADMINISTRATION ARE VOCAL IN THEIR CRITICISM OF MOUNTING WASTE, INEFFICIENCY AND MISMANAGEMENT BY GOV AGENCIES. THEY CHARGE THAT PEREZ HAS YET CO COME TO GRIPS WITH THE MANY BASIC ECONOMIC AND SOCIAL PROBLEMS AFFLICTING VENEZUELA. IN PARTICULAR, THERE IS WIDE-SPREAD DISENCHANTMENT WITH VENEZUELA'S ECONOMIC ASSISTANCE PROGRAMS TO ITS LATIN NEIGHBORS, ESPECIALLY SUCH COUNTRIES AS GUATEMALA (\$105 MILLION) AND EL SALVADOR (\$80 MILLION).

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ACTION ARA-10

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FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 1403

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 13533

5. VENEZUELAN BUSINESSMEN, MOST OF WHOM HAVE BEEN MAKING MORE MONEY IN THE LAST TWO YEARS THAN AT ANY OTHER TIME IN THE NATION'S HISTORY, NOW SENSE THAT THE PALMY DAYS OF VENEZUELA'S PRESENT BOOM MAY BE DRAWING TO A CLOSE. THEY ARE ALSO INCREASINGLY NERVOUS ABOUT

GROWING GOVERNMENT INTERVENTION AND THE CONSTRICTING EFFECT OF MORE GOVERNMENT CONTROL AND REGULATION OF PRIVATE BUSINESS. THEY SENSE AN ACCELERATING TREND AWAY FROM FREE ENTERPRISE TOWARD STATISM, INEFFICIENT IF NOT CORRUPT. SOME MEMBERS OF THE BUSINESS COMMUNITY REGARD NATIONALIZATION OF FOREIGN ENTERPRISES AND INCREASINGLY STRINGENT CONTROL OF FOREIGN INVESTMENT IN VENEZUELA AS FORESHADOWING THE EVENTUAL GOV TAKEOVER OF SIGNIFICANT PORTIONS OF THE NATIONALLY-OWNED PRIVATE SECTOR. AND ALL VENEZUELAN BUSINESSMEN, AS WELL AS MOST MEMBERS OF THE MIDDLE CLASS, DISLIKE THE PROSPECT OF TAX REFORM, WHICH THEY SEE AS A GOVERNMENT OBJECTIVE IN 1976. (IN THEORY INCOME TAX RATES RANGE FROM 15 PERCENT ON TAXABLE INCOMES OF BS 100,000 TO 40 PERCENT ON TAXABLE INCOMES OF BS 28 MILLION AND UP--BUT IN PRACTICE

INCOME TAXES ARE GENERALLY NOT COLLECTED.)

6. ORDINARY CITIZENS ARE COMPLAINING ABOUT THE HIGH COST OF LIVING AND DOUBLE DIGIT INFLATION, WHICH MAKES VENEZUELA ONE OF THE WORLD'S MORE EXPENSIVE COUNTRIES; BUREAUCRATIC INEPTITUDE, CONFIDENTIAL

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WASTE AND BAD MANAGEMENT, ESPECIALLY THE GOVERNMENT'S FAILURE SO FAR NOTICABLY TO IMPROVE THE LOT OF VENEZUELA'S POOR AND UNDER-PRIVILEGED, DESPITE THE COUNTRY'S RAPIDLY BURGEONING WEALTH; AND THE DECLINING QUALITY OF LIFE IN MANY OF ITS ASPECTS (E.G., HOSPITAL SERVICES, TRAFFIC PROBLEMS), ESPECIALLY IN THE CITIES. MANY CITIZENS, INCLUDING POLITICAL LEADERS, WORRY ABOUT THE LOW PRODUCTIVITY AND INDIFFERENCE OF THE AVERAGE VENEZUELAN WORKER, AS WELL AS THE COUNTRY'S NARROW HUMAN RESOURCE BASE AND SCARCITY OF SKILLED WORKERS.

7. THE MALAISE DESCRIBED ABOVE IS PUZZLING. IT APPEARS TO REFLECT DEEPLY INGRAINED PSYCHOLOGICAL ATTITUDES SUCH AS WHAT SOME OBSERVERS PERCEIVE AS THE COUNTRY'S TRADITIONAL INFERIORITY COMPLEX, DREAD OF THE RESPONSIBILITY OF ASSUMING FULL CONTROL OF THE NATIONAL ECONOMY, AND GENERAL NERVOUSNESS ABOUT VENEZUELA'S FUTURE IN AN INCREASINGLY COMPLEX WORLD. WHILE WIDESPREAD, THESE NEGATIVE ATTITUDES ARE, HOWEVER, BY NO MEANS UNIVERSAL AND HAVE HAD NO DISCERNIBLE EFFECT ON THE ECONOMY. CURRENT ECONOMIC INDICATORS, FOR EXAMPLE, PROVIDE NO EVIDENCE OF LACK OF CONFIDENCE IN VENEZUELA'S ECONOMIC FUTURE. PRIVATE INVESTMENT, BANK DEPOSITS, AND REAL ESTATE VALUES ARE UP SHARPLY. (LIQUIDITY IN PUBLIC HANDS REACHED \$8 BILLION BY AUGUST 1975, 46 PERCENT MORE THAN IN 1974.) CERTAINLY, AT LEAST IN THE SHORT RUN, VENEZUELA POSSESSES A CUSHION OF

WEALTH WHICH WILL PREVENT THE COUNTRY FROM FEELING ANY REALLY SERIOUS ECONOMIC PINCH FOR SOME TIME TO COME (8.8 BILLION IN FOREIGN EXCHANGE RESERVES, INCLUDING THE INVESTMENT FUND'S \$5 BILLION). ALTHOUGH REDUCED FROM THE EXTRAORDINARY LEVELS OF 1974 AND 1975, GOV REVENUES IN 1976 WILL STILL BE MORE THAN DOUBLE THE 1973 LEVEL. A REDUCTION OF GOV REVENUES IN 1976 MAY HAVE

THE SALUTARY EFFECT OF STIMULATING THE GOV TO FACE UP MORE
REALISTICALLY TO SOME OF ITS FUNDAMENTAL PROBLEMS. NEVERTHELESS,
WHATEVER THE EXACT CAUSES, IT IS EVIDENT THAT, AS VENEZUELA
ENTERS UPON A NEW ERA IN ITS HISTORY, MAY OF ITS LEADERS AS WELL
AS ORDINARY CITIZENS SHARE A SENSE OF TREPIDATION AND INADEQUACY
IN COPING WITH THE PROBLEMS OF THE FUTURE.
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